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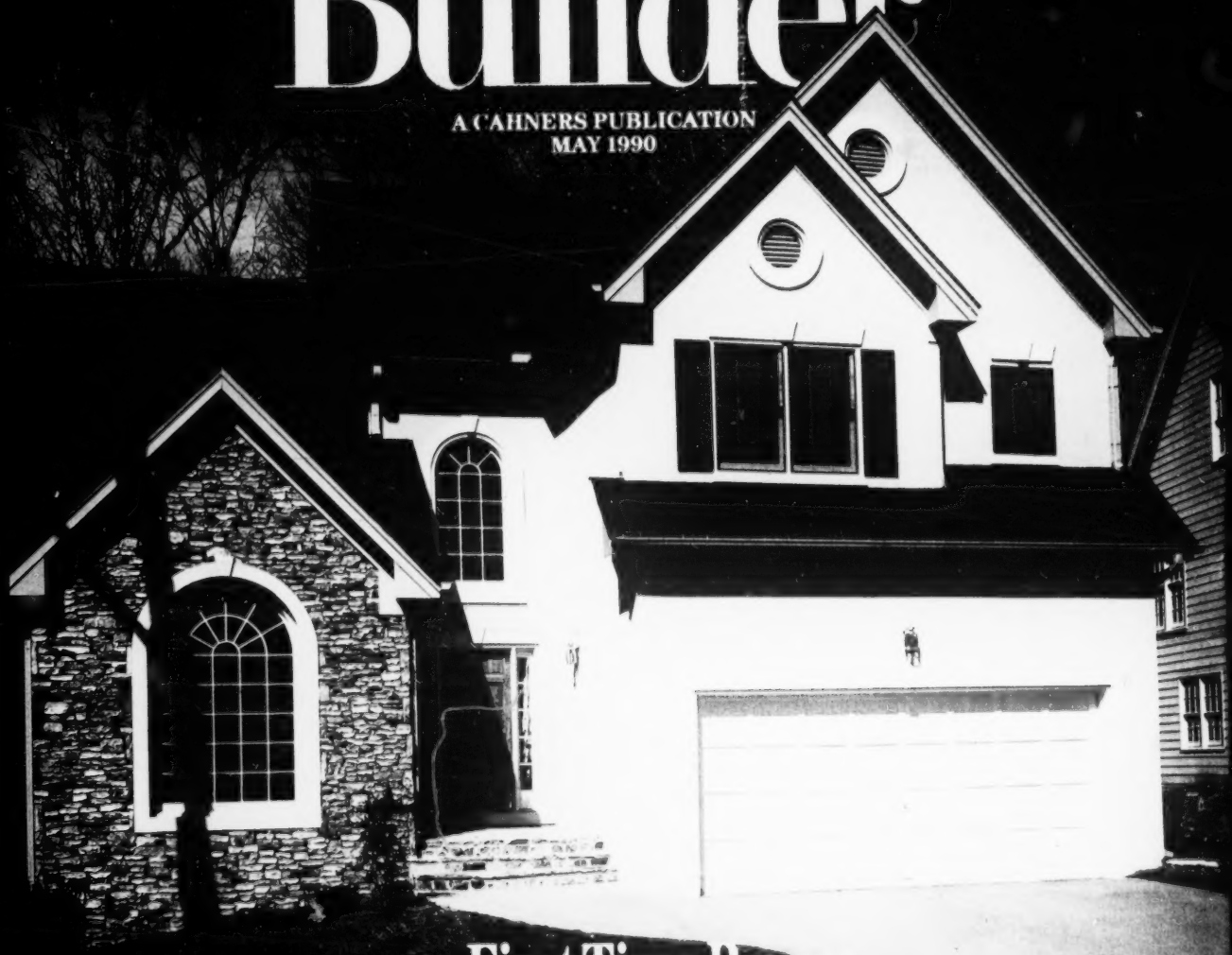


First-Time Buyers
Bridging The Affordability Gap

Why Japanese Investment Is Booming

Making Homes Safer For Children

Nineteen New House Plans Available

Professional Builder

MAY • 1990 VOL. 55

THE MAGAZINE OF HOUSING AND LIGHT CONSTRUCTION/A CAHNERS PUBLICATION

Smart land acquisition kept Torringford Farms low priced, making it a major success for Service Associates, Torrington, Conn. Page 106.

The ad campaign for Weston Lakes, Houston, took top honors in three Target Awards categories. More winners, beginning on Page 116.

A California site, quality, and affordability? Plan 3 of R&H Homes' Country Gardens has 1855 square feet of value for just $170,000. Page 132.

FEATURES

Bridging The Gap To First-Time Buyers 106

Creativity can help span the affordability abyss. The developments shown in this feature cover four disparate regions of the country. Through various means—opportunistic land acquisition, public/private partnership, or special designs—these builders and developers have managed to undercut the average housing price in their markets. By doing so, they reach significant numbers of first-time buyers.

Excellence In Advertising: Sixth Annual Target Awards 116

To foster and encourage better advertising in the home building field, *Professional Builder* and the Builders Advertising Journal newsletter present the Target Awards, the only national awards program designed solely for real estate advertising. Entries are evaluated in a number of advertising categories: magazines, newspapers, direct mail, radio/television, outdoor and brochures. From over 400 entries, 21 grand and numerous merit award winners were selected. All have successful sales records.

The PB Home Of Quality, Value & Affordability 132

Country Gardens, a 1855-square-foot two-story home, is attracting Southern California "equity refugees" with a bargain-basement price of $170,000. One element of the value equation is handling buyer upgrades—none are allowed. According to Hiroko Ogata, principal of the developer R&H Homes, bringing these homes to the market "fully loaded" simplifies production and keeps costs down.

On The Cover

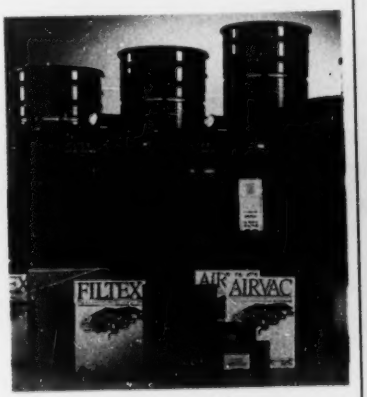
Upscale quality at reasonable prices is the goal of Arvida Communities' Dockside at Water's Edge development outside Atlanta. Vernon Homes, one of 11 independent firms building homes at Dockside, has already sold seven of the 10 houses it will build, including this 2800-square-foot, three bedroom model. The architects were Frank Betz Associates. Photo by Steve Hogben.

Professional Builder

THE MAGAZINE OF HOUSING AND LIGHT CONSTRUCTION/A CAHNERS PUBLICATION

A new home design that maximizes child safety. Page 83.

Japanese investment in U.S. housing hit record levels last year. How important is it? Dan McLeister investigates. Page 22. **Modular housing** units have come to Cape Cod, reports Senior Editor Susan Bady, filling a need for local residents. Page 40. **Small builders** who position their firms on special niches are finding success in their markets. Page 50. **Public relations** can help build a positive image, especially on environmental issues. Page 63. **Frontyard pools?** Builder Gene Suttin uses them to profitably merchandise "non-view lots." Page 68. The **proper project name** can be one of the most critical factors in its success, says consultant Steven Byrne. Page 76.



Energy products and home automation technology. Page 136.

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Residential Markets Enjoy Surge In Japanese Investment

Single-family building gets the bulk of the $2.2 billion they invested last year—up from $700 million in 1988.

By Dan McLeister, Senior Editor

According to a recently released report, Japanese investment money is flowing into residential development in the United States at a rapidly increasing rate, with the bulk of the funds being put into single-family detached housing.

The latest figures from Kenneth Leventhal & Co., Los Angeles, indicate that Japanese investment in residential properties reached the $2.2 billion mark in 1989, accounting for 15 percent of Japan's total investment in U.S. real estate for the year.

This surge into the residential market—in 1988, the Japanese invested just $700 million (about 4 percent of total investment) in the housing segment—represented the single greatest shift in property type for Japanese investors last year. In 1987, the Japanese invested $1.3 billion (about 10 percent) in the residential market.

About 66 percent of the money invested in the residential segment in 1989 went toward the single-family detached housing market, said Jack Rodman, managing partner of the Los Angeles office of Leventhal. The Japanese are now more interested in residential markets, he explained, because they consider them to be less speculative than commercial projects.

The total $14.77 billion invested by the Japanese in all types of U.S. real estate last year was 11 percent below the record $16.54 billion posted in 1988. "This (overall) investment cooling was not unexpected," said Rodman, a specialist in Pacific Rim investment.

"Japan's largest institutional investors are examining Western European markets as the 1992 deadline for economic unification looms. What's more, a number of new construction projects launched in 1988 are not yet completed."

By the end of 1989, cumulative Japanese real estate investment had reached $57.65 billion, up from $42.88 billion in 1988.

While the Japanese have a great deal of money to invest, they tend to be highly selective. Rodman explained that they particularly like large residential communities situated around golf courses, and generally favor housing in planned communities.

According to Ed Miller, president of California Coast Builders in Los Angeles, Japanese investors are also attracted to luxury housing in communities that are perceived to be high-end, exclusive areas. His company has done several deals with Mitsui Fudson USA Ltd. of Los Angeles. One was for 82 houses priced from $1.1 to $1.6 million in Palos Verdes, Calif.

Rodman predicts that in 1990, U.S. residential investment activity for Japanese companies will remain at 1989 levels. He does not foresee another large surge in investment like there was from 1988 to 1989.

Investment By Property Type

Property type	1988 total dollar amount (millions)	1988 percentage of totals	1989 total amount (millions)	1989 percentage of totals
Office	$ 8,310	50%	$ 3,331	23%
Hotel/resort	3,577	22	4,158	28
Mixed-use	2,416	15	2,184	15
Residential	702	4	2,216	15
Retail	644	4	350	2
Industrial	310	2	305	2
Land	302	2	1,321	9
Golf course	202	1	394	3
Other	81	—	517	4
Total	$16,544	100	$14,775	100

Source: Kenneth Leventhal & Co.

Japanese Investments in residential properties jumped to $2.2 billion or 15 percent of total investment in 1988.

Getting a picture of residential activity is sometimes difficult, Rodman said, because housing construction data is also included in the hotel/resort category.

The hotel/resort category accounted for a healthy share of Japanese investment in 1989 and will continue to do so in 1990. Japanese purchases of hotels and resorts amounted to $4.16 billion last year—about 28 percent of their total real estate investment.

The Leventhal study also indicates that the size of the average Japanese deal has shrunk somewhat as they expand their geographic reach into smaller American cities and diversify their investments into other products. Japanese investors nevertheless remain bullish about acquisitions and development in U.S. property markets. "We can expect (overall) investment in 1990 to remain in the $13 billion to $16 billion range," Rodman said. "Fortunately for the American economy, the Japanese continue to find U.S. real estate prices appealing."

The Japanese are providing much of the equity capital sought by U.S. real estate companies in the wake of the savings and loan crisis and the retrenchment of commercial banks, Rodman noted.

He added that this source of equity capital has had the effect of moderating the housing affordability situation: "I view it as a valuable form of capital. It has provided stability and given the United States a healthy home building market.

The diversification in property types is mirrored by the diversification in investors. For example, construction/development companies increased their level of involvement in 1988 and 1989. Individual investors/investment companies and miscellaneous public/private companies have also increased their investment shares.

The growth in these two categories of investors includes many smaller investors and non-real estate companies that constitute what Rodman called the "second wave" of Japanese investment in the United States. The first wave of investors was dominated by a

Continued on page 26

Rendering shows apartment units being built in Atlanta by Dominion Holdings in a venture with Haseko. Single-family house drawing shows plan being built by Ahmanson Developments Inc. with Sumito Realty (Georgia) Inc.

Japanese money helps replace savings and loan funds

Continued from page 23

small number of large companies, a segment that is now showing declining levels of investment.

Another change from the first wave to the second wave is that Japanese investment in office properties has dropped dramatically. Office properties, which made up about half of total Japanese real estate investment in 1988, accounted for just 23 percent of it in 1989.

One trend that has continued into 1989 is the concentration of Japanese investment in three core states: California, Hawaii and New York. These three states captured 81 percent of the total investment in U.S. real estate in 1989, compared with 62 percent in 1988 and 68 percent in 1987.

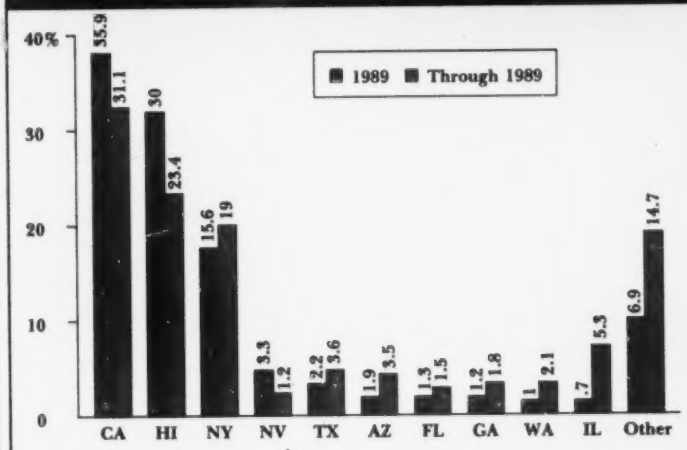
One of the more sizable deals in California last year, for example, occurred when Ahmanson Realty Co. of Los Angeles put together an investment package with Sumitomo Realty of Laguna Niguel for 1000 single-family houses in five different subdivisions. Jeffrey Gault, chairman of Ahmanson Realty, said he considers Asia in general (and Japan in particular) to be the greatest source of high-risk equity capital. Money from there fills a void left by the decline of the thrift institutions, he said.

Moving beyond these top three states, Japanese investors are diversifying into new areas. One example of that is Haseko, a company that in the past has focused on California and New York. The company currently has nine joint venture partners in California, for example, doing deals valued at "a couple hundred-million dollars," said Terry Tornek, vice president of Haseko (California) Inc.

Now the company is developing projects in Atlanta. These include an apartment project with Dominion Holdings of Atlanta, and single-family houses with Horshoebend Corp. While the Atlanta-based division of Haseko has no immediate plans to initiate projects elsewhere, Jim Garrigus, executive vice president of Haseko (Georgia) Inc., indicated that a market like Orlando, Fla., might be next. □

Diversification By State

Percent Of Total Investment



Source: Kenneth Leventhal & Co.

Japanese investment for 1989 was concentrated in California, Hawaii and New York. These states captured 81 percent of the total investment.

Investment By Investor Type

Investor type	1988 total dollar amount (millions)	1988 percentage of total	1989 total dollar amount (millions)	1989 percentage of total
Construction/development company	$ 6,156	37%	$ 7,222	49%
Individual investor/ investment company	1,563	9	3,034	21
Miscellaneous public/ private company	2,471	15	2,549	17
Life insurance company	2,610	16	891	6
Financial company	914	6	318	2
Trading company	728	4	84	1
Other unclassified companies	2,102	13	677	5
All companies	$16,544	100%	$14,775	100%

Source: Kenneth Leventhal & Co.

Construction/development firms spent more money in 1989. Activity by individual investors/investment companies and other companies also increased.